Chia Der Jiun: Remarks on the MAS Annual Report 2023/2024

Remarks by Mr Chia Der Jiun, Managing Director of the Monetary Authority of Singapore, at the MAS Annual Report 2023/2024 Media Conference, Singapore, 18 July 2024.

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Good morning and thank you for joining us today for the release of the [MAS Annual Report for Financial Year 2023/24].

I will be touching on key areas across central banking, developmental and regulatory.

Economic Developments and Monetary Policy

Let me begin with some remarks about recent economic developments and monetary policy. **Global growth has been resilient over the past year in the face of multi-decade high interest rates, and is expected to remain broadly steady over the rest of the year.**

a. The US economy is expected to turn in fairly robust growth, even as employment and wage growth soften.

b. In China, we expect growth to reach around the 5% target with some policy support.

c. Meanwhile, the external-oriented economies in emerging Asia will continue to benefit from the cyclical recovery in the global tech and trade cycles.

Global inflation has declined significantly from its peak, but the last leg of disinflation towards target will be slower.

a. In the advanced economies, price pressures are now largely coming from services, where demand is strong and labour markets still tight.

Beyond this year, we remain vigilant to the risks to the global growth outlook.

a. For instance, high interest rates for longer could cause increasing strains on private sector spending, while uncertainties over the ongoing Middle East conflict and the risk of rising global protectionist policies could negatively impact confidence and investment and push up production costs.

Against a backdrop of relatively supportive global growth and disinflation, Singapore's growth momentum should strengthen this year.

a. Growth across the major sectors of the economy is expected to gradually return to pre-pandemic norms. For the full year, GDP growth will come in closer to its potential rate of 2 to 3%.

b. The output gap is expected to close by the end of the year.

We have made considerable progress in the fight against inflation. Inflation has come down quite some way from the peak of 5.4% in Q1 of 2023.

a. MAS Core Inflation averaged 3.1% year-on-year over April-May, down from 3.3% year-on-year in Q1 2024.

b. Over the past year, price increases have moderated across a range of goods and services, including food, retail goods and discretionary services, such as restaurant meals.

Let's take a look back at how we got to this point.

a. MAS began withdrawing policy accommodation in October 2021, well before most other central banks, as the economy recovered and inflation was picking up while supply chains had not fully recovered from COVID-related disruptions.

b. In early 2022, the Russia-Ukraine war compounded inflationary pressures, as supply-side shocks to global energy and food commodity markets interacted with resilient global demand.

c. Over 2022, MAS tightened monetary policy four times, which included making an unprecedented sequence of three upward re-centrings of the S$NEER policy band.

i. The S$NEER appreciated by close to 7% over 2022, helping to lean against surging imported inflation.

ii. Core inflation peaked at 5.4% in Q1 2023, and headline inflation at 7.3% in Q3 2022. If MAS had not tightened monetary policy, core inflation would have reached 7% and headline 8%.

MAS kept monetary policy on a restrictive stance over 2023 to secure the disinflation path, in the face of underlying price pressures in the domestic economy.

a. In 2023, even as global inflation declined as supply-side bottlenecks receded and demand moderated, domestic cost pressures were still elevated amid a tight labour market, strong wage growth and continued passing through of previous step-up in costs by businesses to consumers.

b. The continued appreciation of the S$NEER restrained aggregate demand in the Singapore economy and dampened domestic price pressures.

c. Core inflation is expected to stay on its disinflation path and will ease more significantly in Q4 this year. It is forecast to reach around 2% in 2025, barring further shocks.

MAS will convey our assessment of the near-term outlook for growth and inflation in the July Monetary Policy Statement.

a. From January this year, MAS shifted to a quarterly schedule for issuing monetary policy statements. This enables MAS to provide its assessment of the economic outlook in a timelier fashion.

b. I would like to stress that MAS continues to maintain a medium-term orientation to its policy formulation.

c. The July MPS will be issued by the end of this month. MAS will provide our latest assessment of the evolution of growth, inflation, and how these map to the appropriate monetary policy stance.

Over the medium term, we are alert to risks to global inflation.

a. Structural shifts impacting supply chains, such as geopolitical tensions and rising protectionism, lower labour force growth, as well as climate change and the worldwide transition to net zero emissions, are likely to result in a more supply-constrained global economy.

b. These shifts and supply rigidities could impart upside pressure on inflation compared to norms in the decade before COVID.

c. Artificial Intelligence (AI) could potentially be disinflationary if it relieves supply constraints and increases productivity, but its impact is still uncertain at this point.

d. If the structural shifts to supply prevail, global monetary policy is unlikely to go back to the highly accommodative stance pre-COVID.

e. MAS will continue to closely study these global developments, and their implications for Singapore's inflation and economic growth, with monetary policy responding accordingly to ensure medium-term price stability.

Developments in Singapore's Financial Sector

Financial Services growth outlook

I now turn to the developments in Singapore's Financial Services sector.

The sector remained resilient in 2023 and has made good progress across the board:

a. Asset management and funds

i. The Singapore asset management industry has continued to grow in breadth and depth over the years. Assets under management (AUM) reached S$5.41 trillion as at 31 Dec 2023, a 10% growth from the previous year, in line with the 10% compounded annual growth rate (CAGR) over the past 5 years.

ii. In particular, **private markets have grown significantly**. From 2018 to 2023, Singapore's PE and VC AUM grew at a CAGR of 24.6% to more than S$650 billion. Over half of these assets were directed towards supporting the growth of businesses in the APAC region.

iii. We expect private credit to continue to grow, with large global private credit managers expanding their Asia teams in Singapore, and new private credit managers establishing a presence here to tap investment opportunities in the region.

b. Debt market

i. **Despite interest rates peaking at multi-decade highs, Singapore's corporate debt market has rebounded strongly**, driven by increased financing needs from corporates to fund business expansion. The outstanding size of the market registered a 10.5% increase to S$566 billion, with new issuance growing 21% in 2023 to S$230 billion.

ii. **Singapore is also ASEAN's largest sustainable debt market.** Sustainable debt issuances grew year-on-year by 7% in 2023, to about S$38 billion. Over S$130 billion of sustainable bonds and loans were issued between 2018 to 2023.

c. Wealth management

i. The wealth management industry has also grown in line with the asset management industry. Singapore is a trusted wealth management centre with high standards of regulation and continues to be attractive to global wealth. **High standards of regulation have and will continue to be key to the success of the wealth management sector.**

ii. **The money laundering case of the past year has not changed our growth trajectory, nor our position on regulatory standards.**

iii. The case underscores the need for continued vigilance by banks and other intermediaries because Singapore, as an international financial centre, is an attractive location to both legitimate wealth and money launderers.

iv. The vigilance of financial institutions here led to Suspicious Transaction Reports (STRs) being filed appropriately, and these STRs enabled law enforcement agencies to uncover the web of connections in the money laundering case.

v. Clearly too, **there were financial institutions with material nexus to this case.** Our supervisory engagements with these financial institutions are mostly completed. We are currently reviewing our findings, to determine the appropriate supervisory actions.

vi. What we have observed broadly is that while we have a high standard of AML/CFT requirements, implementation and practices of individual financial institutions vary. Hence, what is needed is to set a clearer waterline of practices across the industry, rather than a tightening of standards and requirements. We plan to engage industry to clarify our supervisory expectations and help industry implement our AML requirements more evenly across the sector. We also support and welcome ongoing work by industry to develop best practices.

vii. Singapore continues to welcome legitimate wealth and will ensure that our processes and regime are supportive, whilst upholding high regulatory standards. In this regard, we are actively working to reduce the wait time for our tax incentive schemes. We have also introduced schemes to support the further development of Singapore's wealth management sector. For example, the Philanthropy Tax Incentive Scheme for family offices which opened for applications this year, to encourage and channel wealth to philanthropy, social impact and sustainability causes.

d. Insurance

i. Moving on to the insurance sector, our insurance sector continued to grow in 2023 with net premiums and total assets for the overall insurance sector increasing by 6.4% and 6.8% respectively.

ii. **Strong life, health and wealth protection demand in Singapore and the region continue to drive robust growth in the local insurance sector. We expect this growth to continue**, with leading insurers, reinsurers and brokers deepening their underwriting and advisory capabilities through investments in data analytics, technology and specialist talent in traditional lines, and expanding their product range in specialist areas such as cyber and climate insurance, and in insurance linked securities.

e. Banking

i. **Lastly, the banking sector growth has remained robust and resilient. Total assets grew at a 5.5% CAGR over 2018-2023.** In the past few years, we saw major banks expand regional capabilities and resources in key areas, including capital markets, wealth management, sustainability, as well as technology and innovation. This has created good jobs and provided upskilling opportunities.

Looking ahead, we want to continue to build new capabilities in our financial sector, and improve outcomes for consumers. I will elaborate on 3 priorities:

a. First, safe and resilient digital financial services.

b. Second, fair dealing in financial services.

c. Third, building new capabilities in sustainability, AI and quantum technology.

Safe and Resilient Digital Financial Services

Financial services have achieved a high level of digitalisation in recent years.

a. This transformation has brought about greater convenience to customers.

b. It is now possible to leave home with little or no cash, and there is no need to wait in line at a bank branch for many banking services.

i. The vast majority of us now transact on mobile apps or internet banking.

ii. Almost all Singaporean adults have registered for PayNow - which saw total transaction value rise to S$94 billion in 2023;

iii. On the business front, almost all merchants have registered for SGQR payment, and there are over 300,000 SGQR payments acceptance points for consumers to make payments.

The ubiquity of digital financial services means that the information technology systems powering these services are getting more complex and interconnected at a time when the need for resilience is even more critical. Frequent and prolonged disruptions not only cause inconvenience to the public – they can over time erode trust in digital financial services, or in financial institutions that deliver these services. We must work to avoid this.

The standard that MAS has set for the banks is that disruptions to their critical systems should not exceed 4 hours within any 12-month period. We recognise that no IT system is infallible, and disruptions can occur for a variety of reasons. Nonetheless, **banks must be able to minimize these system disruptions, and when they occur, recover quickly.**

Banks must now put their focus beyond individual systems, and consider the resilience of its delivery of financial services. A financial institution may rely on multiple IT systems to deliver a payment service. Having a good understanding of how its IT systems interact to deliver a service would thus strengthen a financial institution's ability to recover from service disruptions. Implementing alternate or backup solutions will similarly facilitate continuity in the provision of essential financial services. These expectations have been articulated in our Guidelines on Business Continuity Management.

MAS will be taking two key steps to further sharpen FIs' focus on resilience of service delivery.

First, we will consult on enhancing the requirements set out in **MAS' Notice on Technology Risk Management. In particular, we intend for FIs to** -

a. Take a service-centric recovery time objective and not just a system-centric recovery time objective;

b. Identify and address single points of failure in critical business services; and

c. Fully test their recovery plans through an annual exercise to ensure that they are able to operate from their Disaster Recovery (DR) site for a prescribed minimum time period .

Second, we will consult on instituting a technology assurance program for FIs that are core to our financial system. Earlier this year in March, we have required the Board of Directors of these key FIs to provide MAS a written attestation on the adequacy of their IT Disaster Recovery plan and the effectiveness of the IT Disaster Recovery testing performed in the last 12 months for all their critical systems. We intend to further build out the program to cover technology risk areas beyond disaster recovery to include other areas in the MAS technology and cyber risk management notices and guidelines.

Let me now touch on scams.

MAS has been working closely with the financial industry, the Police, and other government agencies in the fight against scams. Over the past few years, the banks have implemented a suite of measures to make it much harder for scammers to succeed. Recent moves include -

a. Banks progressively removing the use of One-Time Passwords for bank account login for digital token users. Instead, they will use the digital tokens, which are more secure.

b. Banks' mobile apps now have malware screening capability and will not launch if they detect malware on the phone.

c. Money Lock features were introduced that allow customers to set aside funds that cannot be digitally accessed. As at 30 June, more than 107,000 Money Lock accounts have been set up, with close to S$8.9 billion of savings set aside.

d. Public awareness and education campaigns on scams were also conducted by the Association of Banks in Singapore, individual banks and MAS, to complement national campaigns.

e. Major retail banks are participating and co-located in the Anti Scam Centre to assist the Police with quick tracing and freezing of scam proceeds.

After the implementation of anti-malware measures on banking apps, the incidence of scams involving remote takeover by malware was brought down sharply. Phishing scam cases and amount lost were both lower in 2023 than in 2022, and the median amount lost was below S$1000.

Nonetheless, continued vigilance is needed. New scam typologies can and will emerge and phishing cases can go up again. Scams involving authorised transactions have also been particularly difficult to fight, as the victim who has been deceived by the scammer has authorised the payment. These scams account for the majority of cases and losses. Public education and timely sharing of scam alerts will help. MAS and banks will add more frictions and checks to payments, but these may not be effective if scam victims still decide to authorise the payment.

As we consider further measures for banks to implement, this does involve bank customers collectively giving up some convenience for more security. Scam transactions affect under 1% of retail accounts in 2023. All bank customers will face more checks and steps, and need to adjust to changes, if we are to tighten banking measures further. Additional friction may not be welcomed by all. Let me give 2 examples.

a. If we are to minimize reliance on phishable passwords that can be stolen or given away by the victim, then we have to stop using SMS one-time passwords in conjunction with other phishable passwords for authentication, and rely more on banking mobile app digital tokens. We know some bank customers have not fully embraced the use of digital tokens, which are more secure, and continue to use SMS OTPs. In time to come, we may have to consider solutions more secure than digital tokens.

b. Banks are also enhancing their account surveillance capabilities to detect suspicious transfers that may be connected to a scam. These are based on rules and machine learning algorithms. They will not be precise and will generate many leads (or false positives) that are not actually scams. So for each actual scam, many more customers who are not being scammed may receive notifications and checks.

As the banks introduce new measures and frictions, they will give advance notice to customers. They would have done these after close consultations with MAS and the Police. We will emphasise adequate communication by the banks to seek the understanding of bank customers that these are done with their safety and security in mind.

We will continue to work on measures to help strengthen the resilience of, and consumer's confidence in, digital payment and banking services.

Fair Dealing in Financial Services

In May, MAS issued an updated set of Fair Dealing Guidelines that was expanded to scope in all financial institutions and cover all their products and services. With the updated Guidelines, customers can expect –

a. Products suited to the needs of the target customer segment;

b. Advice with suitable product recommendation, accurate representation of information and extra consideration for those who are more vulnerable;

c. Clear explanations of a product and its terms and conditions; and

d. Independent responsive handling of complaints and feedback.

Our objective is to raise standards of fair dealing across the industry and improve the experience of customers dealing with FIs so that trust is maintained in the sector. MAS places clear responsibility on the Board and Senior Management of FIs to implement strategies in their organisations for achieving these outcomes and monitor the results. MAS will review FIs' progress during our supervisory engagements.

Building new capabilities in Sustainability, AI and Quantum technology

Sustainability

New capabilities are needed to position our financial sector for the opportunities ahead. A key area is in sustainable finance. We expect sustainability to present new opportunities and transform jobs in the years ahead.

a. Singapore's financial sector has an important role to play to support and accelerate our region's transition to net zero.

b. The recently launched Sustainable Finance Jobs Transformation Map study found that many finance professionals will need to understand new sustainability-related regulations and standards, and perform sustainability-related data gathering and analysis work to better take on new sustainable finance-related businesses. MAS and the Institute of Banking and Finance (IBF) will continue to roll out programmes to support professionals in the finance sector to upskill to take on these new sustainable finance opportunities.

Artificial Intelligence (AI)

Let me now turn to how we intend to harness fast developing technologies in AI and Quantum computing.

Financial institutions are no strangers to AI and have deployed machine learning for many years. With GenAI, FIs globally have started piloting the technology across a range of use cases, albeit cautiously in middle office or backend functions. In Singapore, we observe a wide spectrum of FIs with varying degrees of AI readiness and in different stages of AI adoption. The pace of adoption is expected to pick up with better understanding of its opportunities and risks.

We see the potential for Singapore to anchor key capabilities to develop and deploy AI solutions in financial services. **To achieve this, MAS aims to focus on three key areas – Talent; Trust; and Technology Centres of Excellence.**

Talent

First, we need to build a financial sector talent pool with strong AI competencies.

The roles and activities undertaken by many finance professionals will change with the adoption of GenAI, enabling them to spend less time on collecting and processing information, and instead take on higher value work such as analysing insights from AI generated outputs. **New job roles will also be created, for example, in – data management, prompt engineering and AI governance – as FIs scale up their adoption of GenAI.**

MAS and IBF have commissioned a detailed study of how GenAI will change jobs in the sector, and identify the new skillsets needed to perform these changing or new job roles. This enables us to take active steps to equip the financial sector workforce with the right skillsets to capture the opportunities the GenAI brings.

We expect to publish the findings and recommendations early next year.

Trust

Second, there must be trust and confidence in financial services powered by AI. **A strong foundation of governance is essential so that AI is used responsibly and meets high standards.**

In 2018, MAS released the FEAT (fairness, ethics, accountability, transparency) principles, which were co-created with the financial industry. The Veritas industry consortium, led by MAS, subsequently developed an assessment methodology and toolkit to help FIs assess whether their use of AI solutions is aligned with the FEAT principles.

Building on these foundations, MAS worked with an industry consortium through Project Mindforge to identify the risks and opportunities of GenAI, and published a white paper in May. MAS is also putting together a set of good practices for addressing AI model, technology and cyber risks, and considering supervisory guidance next year. An industry-led AI Governance Handbook to aid the development of good AI governance practices is also targeted to be finalised then.

Technology Centres of Excellence

Third, we will anchor the AI centres of excellence of financial institutions in Singapore. There are more than 40 FinTech innovation labs of FIs and technology firms in Singapore. We will build on our experience in anchoring innovation centres here, and support FIs in building AI centres of excellence here as well. The activities could include AI model building and training, deployment of AI models to use cases, and governance, risk management, testing and monitoring. We will make available funding support for these activities and capabilities to be built in Singapore.

We believe there are strong prospects for the financial industry to work together to apply AI to solve problems beyond what each FI can do individually. **We have initiated a new programme called "AI Collider" to bring the industry together to experiment on and scale industry-wide AI solutions.** This involves the development of policies and protocols and a platform for secure and privacy-protecting data exchange where FIs can contribute their respective data and AI models. Industry-wide use cases can be built, trained and deployed on this platform. In the first pilot project, we have identified scam and fraud detection as a use case. By pooling data across banks, suspicious movement of money across bank accounts of multiple banks can be detected, and prompt action taken to investigate and stop these scams. We will share more details in due course.

Quantum technology

Quantum computing is another transformative technology. According to McKinsey, quantum computing use cases in financial services could create over US$600 billion in value by 2035.

There are potential use cases in areas like risk management, trading, portfolio optimisation, and cybersecurity. We have engaged financial institutions and received early expressions of interest to work with Singapore.

MAS has been collaborating with the National Quantum Office following the announcement of the National Quantum Strategy by Deputy Prime Minister and MAS Board member Mr Heng Swee Keat in May. MAS will support financial institutions to build capabilities in quantum computing and security in Singapore. This will contribute to the development, testing and deployment of quantum algorithms to industry use cases, and quantum resilient cybersecurity solutions.

We are prepared to provide up to S$100 million in funding support from the Financial Sector Technology and Innovation Scheme (FSTI 3.0) to financial institutions for both AI and Quantum projects and capabilities.

Quantum computing also has profound implications for cybersecurity as it could eventually render current encryption techniques vulnerable to attack. We have to start building capabilities in the financial industry to be quantum resilient. In February this year, MAS published an advisory to all FIs on addressing the cyber risks associated with Quantum computing. The advisory highlights the measures that FIs should consider as part of their quantum transition efforts.

MAS is now working with the industry on a proof-of-concept sandbox on quantum key distribution (QKD) to enable secure and quantum-safe communication between MAS and participating FIs. The sandbox is expected to be implemented by the end of this year, and will help build QKD capabilities for broader application in the industry to strengthen quantum resilience.

MAS Financial Results for FY2023/24

I now turn to MAS' financial results.

For FY2023/24, MAS recorded a net profit of S$3.8 billion.

This comprises:

a. investment gains of S$12.7 billion, mainly from interest income, dividends and realised capital gains, and

b. a small positive currency translation effect of S$1.7 billion,

c. partially offset by S$10.6 billion in net cost from MAS' money market operations to manage banking system liquidity, and other expenses.

The small positive currency translation effect of S$1.7 billion arose as the Euro, Pound Sterling and US Dollar strengthened against the Singapore Dollar, when we report MAS' Official Foreign Reserves, held in foreign currencies, in Singapore Dollars.

Conclusion

With that, I conclude my remarks.